
IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

No. 15,189

AMERICAN CHEMICAL PAINT COMPANY,
a corporation,
PLAINTIFF-APPELLANT,

VS.

THOMPSON CHEMICAL CORPORATION,
a corporation,
DEFENDANT-APPELLEE.

BRIEF FOR APPELLANT

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BRIEF FOR APPELLANT.

Jurisdictional Statement.

The District Court on May 29, 1956 granted an Order (R. 33-36) enjoining plaintiff-appellant from commencing and further prosecuting certain actions, namely patent infringement suits.

Federal jurisdiction is, therefore, based on the Patent Statutes, 35 U. S. C.

The Appeals Court has jurisdiction of the instant appeal by virtue of 28 U. S. C. 1292.

Statement of the Case.

This is an appeal from an Injunctive Order (R. 33-36) granted on May 29, 1956 by the District Court enjoining

plaintiff-appellant from commencing patent infringement actions against defendant-appellee or its customers and from further prosecuting patent infringement actions which were earlier instituted by plaintiff-appellant against certain of defendant-appellee's customers in the State of Washington.

The action was originally commenced by plaintiff against defendant on March 31, 1955 in the U. S. District Court Southern District of California, Central Division. The complaint (R. 3-6) charging defendant with infringement of U. S. Letters Patent No. 2,258,292 seeks an injunction and an accounting of profits and damages.

A first amended answer (R. 6-13) was filed on June 16, 1955.

On February 9, 1956, plaintiff instituted suit for infringement of said Letters Patent against Yakima Farmers' Supply Co. in the U. S. District Court, Eastern District of Washington, Southern Division, Civil Action No. 1079 (R. 17-20). Defendant herein intervened and moved for a stay, which motion was granted on April 3, 1956.

On March 1, 1956, plaintiff instituted suit for infringement of said Letters Patent against H. R. Spinner Company *et al.* in the U. S. District Court for the Eastern District of Washington, Northern Division, Civil Action No. 1359 (R. 21-24).

Here again, defendant herein intervened and moved for a stay, but the stay was denied on May 8, 1956 (R. 44-45).

On April 24, 1956 defendant moved (R. 13-14) in the instant action to enjoin plaintiff from continuing prosecution of the Washington suits and from commencing suits elsewhere.

Over plaintiff's objections (R. 27-32), the District Court on May 29, 1956 granted defendant's motion.

The instant appeal from this injunction was noted on or about June 19, 1956 (R. 39-40).

Specification of Errors.

The District Court erred in providing in its injunctive order that:

1. Plaintiff, during the pendency of this action, may not commence other actions for infringement of Patent 2,258,292 against defendant or its customers anywhere else.

2. Plaintiff must seek permission of the District Court for the Southern District of California, Central Division to commence any other infringement suit against a customer of defendant anywhere else.

3. Plaintiff, during the pendency of this action, may not continue prosecution of the suit against H. R. Spinner Company *et al.* in the Eastern District of Washington, Northern Division, Civil Action No. 1359, notwithstanding the fact that said court refused a stay of the proceedings as late as May 8, 1956.

4. Plaintiff can re-institute said suit against H. R. Spinner Company *et al.* only after it, plaintiff, applies for permission from the California District Court and also presents evidence of defendant's financial inability to make plaintiff whole for any damage resulting from the injunction.

ARGUMENT.

I. Patent owner has right to maintain and institute suits for infringement against dealer-customers of an infringing manufacturer.

It is well settled that prior to a determination of a patent's invalidity the patent owner has a cause of action, separate and independent from that against an infringing manufacturer, to recover profits and damages and to restrain one who resells a product which he purchased from an infringing manufacturer. *Birdsell v. Shaliol*, 1884, 112 U. S. 485, 5 S. Ct. 244, 28 L. Ed. 768.

It is not unusual for a patent owner to litigate in more than one court and a relatively simple case may be allowed to go forward simultaneously in diverse courts. *Helene Curtis Industries, Inc. v. Sales Affiliates, Inc.*, 2 Cir., 1952, 199 F 2d. 732.

Moreover, even where the issues and the parties are the same and two suits are pending in different districts of the same circuit, it is within the discretion of the court to deny a stay of the later filed suit if, as a matter of calendar practice, the chances are that the later filed suit will be reached for trial first. *Artvale, Inc. v. George Knitting Mills, Inc.*, 110 USPQ 179 (D. C. E. D. N. Y.—July 5, 1956) —no federal citation.

The question in the instant case is, therefore, whether the facts present such compelling circumstances as to warrant enjoining pending and future actions which are otherwise allowable.

It is respectfully submitted that the District Court's injunction herein is unwarranted on the basis of the facts and judicial decisions relating thereto.

In the instant case, plaintiff sued defendant in California for infringement of its patent 2,258,292. Depositions of defendant's officials were then taken which disclosed that defendant had sold the infringing composition to various dealers.

On the basis of plaintiff's general knowledge of defendant as confirmed by Dun & Bradstreet reports, it was concluded that the defendant is not financially stable and suits were therefore instituted against two dealers in the State of Washington.

In view of this suspected financial instability of the defendant, plaintiff is justified in maintaining its two suits against defendant's dealer-customers in the State of Washington and is justified in the institution of additional suits elsewhere if necessary.

Furthermore, a suit against an infringing manufacturer's dealer-customer is not the same as a suit against the manufacturer itself. For one thing, the parties are different. For another, the dealer-customer's liability depends upon the extent of resale to ultimate consumers, farmers herein, of an infringing composition purchased from the manufacturer and possibly from some other source. And yet for another, the dealer-customer may resell the infringing composition to farmers after dilution of the composition.

Therefore, the facts relating to the nature and extent of the dealer-customer's infringing acts are necessarily different from those involved in the instant California suit against the manufacturer defendant. *International Nickel Co. v. Ford Motor Co.*, 108 F. Supp. 833 (D. C. S. D. N. Y.—1952).

As to the element of liability, it is clear that one infringer is not relieved by payment by another infringer, but each is accountable for the profits which he has received. Thus the dealer-customer's infringement, that is profits derived from the resale to farmers, cannot be relieved by defendant's payment to plaintiff for defendant's infringement, namely the profits derived by defendant from its sales to the dealer-customer.

Hazeltine Corporation v. Atwater Kent Mfg. Co.,
34 F. 2d 50 (D. C. E. D. Pa.—1929);

Kryptok Co. v. Stead Lens Co., 190 Fed. 767 (C.
C. A., 8th—1911);

Sherman, Clay & Co. v. Searchlight Horn Co., 225
Fed. 497 (C. C. A., 9th—1915);

*Triangle Conduit & Cable Co., Inc. v. National
Electric Products Corporation*, 138 F. 2d 46
(C. C. A., 3rd—1943).

In said *Triangle* case, *supra*, the Court at pages 47 and 48 stated the proposition of law as follows:

“We think that the injunction against the prosecution of the severed cause of action against Sears should not have issued. It must be remembered that the duty of a United States district court to enjoin further prosecution of a proceeding later instituted in another United States district court arises only if the controversy in each court involves the same issues and the same parties. *Crosley Corporation v. Hazeltine Corporation*, *supra*. It is true that the validity and infringement of the same six patents are at issue in both courts. The parties, however, are not the same. In the Delaware district court the litigants are National, the owner of the patents and Triangle, the alleged infringing manufacturer. In the Michigan district court the litigants are National, the owner of

the patents, and Sears, a retail dealer whose tort is alleged to be the resale of products manufactured in infringement of the National patents. It will not do to say that the suit against Sears is in reality a suit against Triangle. It is well settled that a patent owner has a cause of action, separate and independent from that against an infringing manufacturer, to recover profits and damages and to restrain one who resells a product which he purchased from an infringing manufacturer. *Birdsell v. Shaliol*, 1884, 112 U. S. 485, 5 S. Ct. 244, 28 L. Ed. 768; *Sherman, Clay & Co. v. Searchlight Horn Co.*, 9 Cir., 1915, 225 F. 497; *Kryptok Co. v. Stead Lens Co.*, 9 Cir., 1911, 190 F. 767, 39 L. R. A., N. S., 1. This right of action continues so long as the questions of validity and infringement have not been finally adjudicated."

II. There are no compelling reasons to enjoin plaintiff from maintaining and instituting infringement suits against defendant's customers.

The equities of the case at bar are clearly in favor of the plaintiff. There was no warrant for the issuance of the injunctive order by the District Court.

Plaintiff has filed only two additional suits for infringement, both against defendant's dealer-customers and both in the State of Washington. They were instituted because plaintiff believes defendant to be financially unstable and to attempt to secure redress for infringements resulting from resales by dealers.

By no stretch of the imagination can this activity on the part of the plaintiff be considered "forum shopping with a vengeance". Moreover, there is nothing in the record to indicate that the plaintiff is threatening an army of suits.

When there have been only a few suits against customer infringers in addition to that against the manufacturer infringer, there is no compelling reason to enjoin such suits.

In addition, only three weeks prior to the issuance of the instant injunctive order, the Court in the suit against H. R. Spinner Company *et al.*, Civil Action No. 1359, in the Eastern District of Washington, Northern Division denied defendant's motion to stay said action (R. 44-45).

It is respectfully submitted that the California Court's action was not only inequitable but that it did not, in fact, have the power to undo the decision of the Washington Court.

III. District Court may not enjoin plaintiff from maintaining and instituting infringement suits against defendant's customers without requiring evidence from defendant of its financial stability and a bond.

Because there must be compelling circumstances before a Court will issue an injunction against maintenance and institution of further infringement suits, the Courts have conditioned the issuance of such an injunction upon the assurance that the defendant is financially responsible and upon the posting of a bond. *Pierce v. Allen B. Du Mont Laboratories, Inc.*, 108 USPQ 362 (D. C. D. Dela.—1956); *Bechik Products v. Flexible Products*, 225 F. 2d 603 (2nd Cir.—1955).

In said *Bechik* case, on p. 607 of its Opinion, the Court stated the rule as follows:

“However, we think that the court should not, by a stay in the institution of suits against defendant's customers, put damages for which the defendant is liable beyond the reach of recovery from the cus-

tomers, without assurance that the defendant will be financially able to discharge its liability therefor.

We hold, therefore, that the injunction restraining the institution of suits against other contributors to Flexible's infringement may issue only on condition that Flexible furnish a bond conditioned on its payment to the plaintiff of any pecuniary award which may be made to it in this case. That the issuance of the injunction so conditioned is within the discretion of the court, we have no doubt. *Hecht Co. v. Bowles*, 321 U. S. 321, 329-330, 64 S. Ct. 587, 88 L. Ed. 754."

In the instant case, the court did not require the defendant to give assurances of its financial responsibility and a bond conditioned on its payment to plaintiff of any pecuniary award which may be made in the case.

Instead it made it mandatory for plaintiff to present evidence of defendant's financial inability to the District Court at a time when plaintiff should seek to set aside the order.

This is clearly inequitable and an abuse of the District Court's discretion.

It is further an abuse of the District Court's discretion in that it is violative of F. R. C. P. Rule 65(c) which states, in part:

"(c) *Security*. No restraining order or preliminary injunction shall issue except upon the giving of security by the applicant, in such sum as the court deems proper, for the payment of such costs and damages as may be incurred or suffered by any party who is found to have been wrongfully enjoined or restrained."

Conclusions.

The District Court abused its discretion in granting an order enjoining plaintiff from maintaining its action against H. R. Spinner and Company in the Eastern District of Washington, Northern Division, Civil Action No. 1359 when, but three weeks earlier, said Washington court denied defendant's motion for a stay.

The District Court abused its discretion in granting an order enjoining plaintiff from commencing any suit anywhere else against defendant's customers, knowing as it did that only two other suits were filed in the State of Washington, one of which was already stayed.

The District Court abused its discretion by refusing to demand evidence of defendant of its financial responsibility.

The District Court abused its discretion by failing to demand a bond for security from the defendant.

The District Court abused its discretion by making it mandatory that plaintiff come to it for specific permission to reopen and file new suits conditioned upon plaintiff's duty to prove defendant's financial irresponsibility.

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